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Executive Summary

The President's Task Force on International Private Enterprise

December 1984

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In May 1983, at a time of severe international economic turbulence, the President established the President's Task Force on International Private Enterprise. The President requested that the Task Force identify ways to strengthen the economies of developing nations. In particular, the President asked the Task Force how U.S. foreign assistance could be used to stimulate private enterprise development and promote investment in and trade with developing countries.

The following summary includes the major findings and recommendations of the Task Force.

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Executive Summary

The United States now faces the challenge of leading the world to a new era of prosperity created, in significant part, by unleashing the dynamism of the private sector in the Third World. Meeting this challenge successfully is a matter of our own long-term national security and is the direct requirement of a world grown more interdependent. As they have in the past, U.S. economic policies will continue to reflect and be dictated by traditional humanitarian concerns.

We believe that the United States and developing countries share a vital interest in Third World economic development, that economic growth can best be achieved through the development of the private sector, and that economic growth provides a necessary base for long-term political stability.

Among the Task Force's general recommendations are the following.

☐ **Elevate international economic policy to a level comparable to national security.**

In the world of the twenty-first century, the security of the United States and of developing nations will depend increasingly on how well our economies interact. One of the critical determinants of our security will be the degree of our success in sharing our economic strength with the developing world. This will also require giving heightened significance to international economic policy and devising ways to share our economic know-how with developing countries.

☐ **Establish an Economic Security Council.**

Responsibility for the formulation of international and domestic economic policy is fragmented, with portions scattered throughout the U.S. Government. A well-coordinated U.S. economic policy would mean more jobs, increased exports, and increased stability at home and abroad. We propose the creation of an Economic Security Council, responsible for formulating, coordinating, and integrating international and domestic economic policies. Some of the matters with which such a council would deal are the debt crisis, trade and agricultural policy, technology transfer, and foreign assistance.

☐ **Expand Opportunities for Private Enterprise.**

The private sector in developing countries is hampered not only by the lack of capital and the lack of technology and management skills that accompany direct investment, but also by the absence of positive government policies toward entrepreneurship. By urging, encouraging, and using our resources to help developing countries adopt policies that attract foreign direct investment and by helping businesses identify investment opportunities in the Third World, we can make a crucial contribution to the economic development of those countries. The Task Force's *Private Enterprise Guidebook* provides specific advice on how to use U.S. resources to attract foreign and local investment.

☐ **Reorient U.S. foreign aid programs.**

Perhaps the greatest paradox in our foreign aid programs has been that while U.S. economic success is based upon private enterprise, we have done far too little to help developing countries attract private enterprise, trade, and investment. U.S. foreign assistance programs should substantially expand their efforts to help developing countries adopt policies that will strengthen the opportunities for private enterprise. To the maximum extent feasible, the U.S. Government should not channel its foreign assistance resources to governments, but to the private sector in developing nations. For the mutual benefit of the United States and developing countries, the U.S. Government should also integrate its foreign assistance and trade programs and policies to make better use of its resources. The Task Force's action brief on strengthening AID's private enterprise thrust and its *Private Enterprise Guidebook* will serve as a blueprint for this reorientation.

☐ **Press for Increased Trade Flows.**

American firms increasingly find themselves competing overseas with foreign firms that are supported by their national treasuries. Not only are U.S. companies losing large amounts of business to mercantilist nations that provide heavy subsidies to their firms, but these practices distort the whole pattern of international trade to the detriment of the United States, developed countries, and developing countries alike. In fact, we believe the practice of "mixed credit" trade subsidies has become a major threat to international private enterprise. To protect U.S. firms and the free enterprise system, we recommend that the United States fight fire with fire. Specifically, we believe that the Administration should make sufficient mixed credit resources available in order to convince other nations that such practices are not in anyone's "best interest." This will press our foreign competitors to the negotiating table and bring an end to such predatory practices. In Part V of this report we recommend that the Agency for International Development (AID) and the Export-Import Bank (Eximbank) blend their resources and that, if necessary, Eximbank use the full extent of its authority. This could amount to a mixed credits program of several billion dollars.

□ **Constructively use U.S. Agricultural Abundance.**

We cannot afford, financially or morally, to idle large parts of our productive farmland. Rather, we must devise ways to harness our agricultural abundance so that we can increase exports from the United States and alleviate chronic starvation and malnutrition in the developing world. Food can also be used to ease the pressing foreign exchange needs of Latin American, Asian, and African nations caught in the international debt crisis. The U.S. Government can provide large amounts of food to these countries on a concessional basis to enable them to use their limited foreign exchange to meet other objectives. The Public Law (P.L.) 480 Program is one of the President's most effective tools. We recommend doubling the program. Given the current costs of farm subsidy programs, the impact of this increase would be a net reduction in the Federal budget.

In designing a strategy to address current crises and long-term economic development needs, the Task Force has been guided by the following precepts.

□ Market-oriented economies work, excessively planned economies do not.

□ The United States has an important role to play in leading the world toward balanced and equitable economic growth.

□ A free and open trading system offers the greatest hope of achieving widely shared economic growth and prosperity. However, U.S. industry and agriculture must be able to compete with the terms offered by mercantilist nations until such time as we can meet our competitors on a level playing field—in fair and open competition.

□ United States agricultural abundance must be harnessed more effectively to address the human and development needs of the people of the Third World.

Specific Findings and Recommendations of the President's Task Force on International Private Enterprise

The following findings and recommendations are discussed in the report that follows. They are the result of substantial research and the subject of extensive deliberation by members of the Task Force over the past several months. If adopted, our recommendations will strengthen the economy of the United States and other developed and developing nations.

THE IMPORTANCE OF PRIVATE ENTERPRISE AND INVESTMENT TO DEVELOPMENT

Finding:
Countries that fail to create conditions—including appropriate laws and policies—that will attract investment will relegate themselves to slow growth. At the present time, there is no central source of advice to help developing countries foster the conditions necessary for private sector growth.

Recommendation:
The United States, working with other donor nations, developing countries, multilateral institutions, and private business, should establish a Private Enterprise Institute that will serve as a research center to advise developing countries on how to create those conditions necessary to attract investment and foster trade.

Finding:
New foreign investment will be difficult to attract for many debt-ridden LDCs as long as insufficient foreign exchange is available to the private sector.

Recommendation:
The United States should take the lead in assuring that private needs for credit and foreign exchange in LDCs are not pushed aside by preferred access of the public sector.

Finding:
The United States and other donors do not make sufficient effort to increase private investment and improve the investment climate in developing countries.

Recommendation:
The United States should strongly encourage international dialogue on ways to support increased foreign direct investment.

Recommendation:
The United States should substantially increase its support of private investment activities in developing countries.

Finding:
In order to increase foreign investment, developed and developing countries need to adopt uniform standards for host country and investor responsibility and conduct.

Recommendation:
The United States should encourage developing nations to negotiate bilateral investment treaties. The United States should assign priority in its aid programs to those countries that sign such treaties.

Finding:
Expanded investment insurance (or guarantee) is a key to increasing investment in developing countries.

Recommendation:
Overseas Private Investment Corporation (OPIC) funding and insurance capability should be substantially increased and its mandate broadened to include a full range of financing and services to U.S. business, large and small.

Recommendation:
The United States should support a multilateral investment guarantee program administered by the World Bank.

FOREIGN ASSISTANCE PROGRAMS AND PRIVATE ENTERPRISE DEVELOPMENT

Finding:
The U.S. Government does not sufficiently encourage or assist recipient developing countries in making the policy changes necessary to allow private sector growth.

Recommendation:
The United States should sharply increase its efforts to guide developing countries toward market-oriented policies; it should reward those countries that adopt strategies that will lead to a positive climate for business and investment.

Recommendation:
U.S. food assistance should be used to a greater extent as an incentive for developing countries to adopt market-oriented policies that encourage the private sector to increase agricultural production.

Finding:
U.S. foreign assistance programs are often required to address problems other than those related to long-term stability and economic growth.

Recommendation:
The economic component of U.S. foreign assistance programs should have a higher national priority.

Finding:
The links between our foreign assistance program and U.S. foreign trade are inadequate.

Recommendation:
The scope and financing of the Trade and Development Program (TDP) should be expanded.

Recommendation:
TDP techniques should be applied to other foreign assistance programs, specifically those carried out by AID, to the maximum extent possible.

Recommendation:
U.S. foreign assistance resources should be used to build up the trading capacity of developing countries.

Recommendation:
U.S. foreign assistance resources should be used to assist in China's modernization process.

Recommendation:
U.S. foreign assistance agencies—such as AID, OPIC, and TDP—should package their financial and other resources to promote greater two-way trade between the United States and developing countries.

Finding:
In implementing its agricultural development policies, AID has not given private agribusiness activities the attention and support they deserve.

Recommendation:
Private sector efforts to form private sector agribusiness development corporations should be encouraged and supported.

Recommendation:
Developing country agricultural entrepreneurs should be supported by qualified U.S. executive-managerial and technical personnel "on loan" from the private sector to assure the ongoing progress of companies and individuals being financed with U.S. foreign assistance funds.

Finding:
The international financing institutions play a constructive role in Third World development.

Recommendation:
The United States Government should utilize its resources to support broad economic changes in developing countries and, where appropriate, coordinate its efforts with those of the International Monetary Fund, the World Bank, and the International Finance Corporation (IFC).

Recommendation:
The United States should continue to support the multilateral development banks' efforts to support private enterprise development.

Finding:
The breadth and scope of AID's private enterprise activities are too limited. In order to expand them, AID needs a clearer mandate, improved skills, and greater flexibility.

Recommendation:
AID's congressional mandate, its policies, its programs, and its organization must be revised to reflect greater private sector emphasis.

Recommendation:
AID should turn to the U.S. business community to assist it in developing practical modes of business-government cooperation.

Recommendation:
The U.S. Government, to the maximum extent feasible, should channel its foreign assistance resources through the private sector and not through governments: AID should substantially increase its support of private intermediate credit institutions (ICIs).

Recommendation:
AID should increase its equity financing through ICIs.

Recommendation:
AID should serve more as a broker between U.S. businesses and prospective overseas partners by providing inexpensive, current, and easy-to-use information on the investment climate and operating conditions in developing countries.

Recommendation:
AID should support the formation of trading companies and other business brokering institutions that have developmental potential.

Recommendation:
AID should encourage joint undertakings between businesses and private voluntary organizations in developing countries.

Recommendation:
AID should streamline its administrative and procurement processes.

Finding:
Training, in various forms, is one of the most effective long-range means of promoting development. Fulfilling training needs offers the United States a significant opportunity.

Recommendation:
The United States should significantly expand U.S.-based training and place stronger emphasis on private sector participation and needs.

THE FORMATION OF U.S. ECONOMIC POLICY

Finding:
In order to cope with new and changing circumstances, a new institutional structure is needed to ensure better formulation and coordination of U.S. international and domestic economic policy.

Recommendation:
The President should establish an Economic Security Council (ESC) to formulate and coordinate domestic and international economic policy.

Recommendation:
The President should designate an Assistant to the President for Economic Affairs who would participate in the Economic Security Council.

Finding:
Both legislatively and administratively, our foreign assistance programs suffer from confused mandates, divided responsibility, and often from a perception that economic development has a low priority.

Recommendation:
There must be greater, more regularized consideration of developing country issues in the policy deliberation process.

Recommendation:
Changes must be made in AID's mandate and organization in order to improve the effectiveness of foreign assistance programs.

Finding:
Responsibility for the U.S. Government's trade policies and programs is fragmented among several government agencies. Policies and programs do not operate within an overall strategy aimed at benefiting both the United States and developing countries, nor are they designed to address both U.S. trade objectives and broader U.S. economic objectives.

Recommendation:
The U.S. Government must develop an aggressive, consistent trade policy that mixes aid and trade resources, enables U.S. firms to be more competitive in world markets, and meets the challenges posed by the growing governmental role in world competition.

Recommendation:
The United States must link its trade and foreign assistance programs.

Recommendation:
The United States should consider ways to give higher priority to the need for a freer and more open international trading system and continue to press for

a new round of multilateral trade negotiations. This new round should include adopting a trade in services code, the application of trade rules to middle-income developing countries, and strengthening enforcement procedures against government-subsidized trade.

Recommendation:
The authority of the United States Trade Representative (USTR) as trade policy negotiator and manager should be strengthened and expanded.

Finding:
The United States needs a more coordinated policy to integrate domestic agricultural programs, food assistance programs, and agricultural trade programs.

Recommendation:
The United States must integrate its agricultural trade, food aid, and domestic farm policies.

Recommendation:
The Administration should seek to better relate U.S. response to LDC food and domestic security requirements.

Finding:
Some U.S. Government measures have discouraging or disadvantageous effects on American firms that are involved or might become involved in long-term relationships with private enterprise in developing countries.

Recommendation:
The U.S. Government should coordinate more effectively its efforts to assure that U.S. laws and regulations reflect greater sensitivity to structural changes in the international marketplace.

TRADE AND FOOD ASSISTANCE

TRADE

Finding:
The United States has not adopted a strong enough stance in its negotiations to stop foreign governments from using unfair methods of subsidizing export finance.

Recommendation:
The United States should use aggressively the mixed credits authority of the Export-Import Bank (Eximbank) to counter competitors' mixed credit offers.

Recommendation:
AID should also use its limited mixed credit authority, although the Export-Import Bank will be the major source of mixed credit financing.

Finding:
The current debt crisis in the developing countries requires close cooperation between the U.S. private and public sectors to assure that adequate trade financing is made available.

Recommendation:
U.S. Government foreign credit programs should operate under consistent guidelines.

Recommendation:
As part of an integrated trade policy, the participation of the U.S. private sector in countertrade should be facilitated when it is in the best interest of the United States.

FOOD ASSISTANCE

Finding:
Many developing countries face chronic food shortages that will undermine their political stability and economic development.

Recommendation:
Food aid should be at least doubled to help avert starvation, alleviate poverty and malnutrition, expand developing country agricultural markets, and support private sector growth.

Recommendation:
A much larger share of total U.S. foreign assistance should be food assistance.

Recommendation:
Agricultural export credit programs should be significantly increased to help lessen the development impact of large food deficits and large debt burdens.

Finding:
Present U.S. food assistance programs do not emphasize private enterprise development and U.S. private sector involvement in development assistance.

Recommendation:
The U.S. Government should follow the instructions and intent of the law that most counterpart funds generated by P.L. 480 should be channeled through businesses and not through government.